Director of
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The Deepening Crisis in the USSR: Prospects for the Next Year

National Intelligence Estimate

This National Intelligence Estimate represents the views of the Director of Central Intelligence with the advice and assistance of the US Intelligence Community.

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NIE 11-18-90
November 1990
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The Deepening Crisis in the USSR: Prospects for the Next Year

- **No end to the Soviet domestic crisis is in sight, and there is a strong probability that the situation will get worse—perhaps much worse—during the next year.**

- **The economy is certain to decline, and an economic breakdown is a possibility. The central government will be weaker, and some republics will be further along the road to political independence.**

- **The current situation is so fragile that a combination of events—such as the death of Gorbachev or Yel'tsin, a precipitous economic decline, massive consumer unrest, or an outbreak of widespread interethnic violence—could lead to anarchy and/or the intervention of the military into politics.**

- **The certain continued diffusion of power will make the conduct of Soviet foreign policy more difficult and complicate relations with the West. At a minimum, Western countries will be confronted with more urgent pleas for economic assistance—especially from republic leaders, who will also push for political recognition.**

Figure 1
Scenarios for the Next Year

Scenario [a]	Factors That Could Lead to Scenario	Rough Probability
Deterioration Short of Anarchy	Failure to agree upon and implement effectively a far-reaching marketization plan; or the broad resistance of the population to such a course. Failure of the center and the republics to move to new, mutually acceptable political and economic relations. Inability of political institutions to adapt to changing political realities, and ineffectiveness of new democratically elected leaders in governing. Continued, though diminished, viability of the central government.	Close to even
Anarchy	A precipitous decline of the economy. Massive social protests or labor strikes that proved to be beyond the security services' ability to control. The assassination of Gorbachev or Yel'tsin. The complete breakdown of relations between the center and the republics--especially the Russian Republic.	1 in 5 or less
Military Intervention (ranging from a coup to civilian-directed martial law)	Breakdown of key elements of the national economy, such as the transportation system. Violence against central government institutions. A situation approaching collapse of central authority. Anarchy.	1 in 5 or less overall; much lower for a coup
"Light at the End of the Tunnel"	Substantial progress toward: □ Developing a new set of relationships allowing the republics to deal constructively with each other and the center. □ The filling of the political power vacuum by new political institutions and parties. □ Establishing new economic relations based on the market.	1 in 5 or less

[a] These scenarios are analytical constructs describing overall directions the USSR could take over the next year and are not mutually exclusive.

Key Judgments

The USSR is in the midst of a historic transformation that threatens to tear the country apart. The old Communist order is in its death throes. But its diehards remain an obstructive force, and new political parties and institutions have yet to prove their effectiveness. The erosion of the center's influence, coupled with the republics' assertion of sovereignty, is creating a power vacuum. Gorbachev has amassed impressive power on paper, but his ability to use it effectively is increasingly in doubt. Meanwhile, economic conditions are steadily deteriorating.

Whether the Soviet Union over the next year can *begin* to find a way out of its crisis will hinge, above all, on two variables:

- *The performance of the economy.* The question is not whether the economy will decline further but how steep that decline will be. A precipitous drop would make crafting a new center-republic relationship next to impossible and markedly increase the likelihood of serious societal unrest and a breakdown of political authority.

- *The Gorbachev-Yel'tsin relationship.* Because of the Russian Republic's disproportionate size and influence in the union and Yel'tsin's role as the most prominent leader of the new political forces emerging throughout the country, the more open the confrontation between the two leaders, the more destabilizing it would be.

In our view, prospects for positive movement in each variable are low. Gorbachev's economic reform plan, while endorsing marketization, falls far short of what is needed to stem the economy's decline. And the Yel'tsin-Gorbachev clash over the plan bodes ill for both economic and center-republic reform.

For these reasons, we believe that over the next year a scenario of "deterioration short of anarchy" is more likely than any of the other three scenarios that we consider possible (see table). There is, however, a significant potential for dramatic departures along the lines of the "anarchy" or "military intervention" scenarios.

In our most likely scenario, *deterioration short of anarchy*, the country's economic, political, ethnic, and societal problems will continue to get worse at an accelerating rate. Gorbachev probably will remain president a year from now, but his authority will continue to decline. His ambivalence

toward radical transformation of the system probably will continue to delay decisive action and dilute the effectiveness of efforts to implement market reform or negotiate a new union. Yel'tsin's popularity and control over the Russian government will give him significant influence on the country's course over the next year. The different visions the two men have of Russia's and the USSR's future are likely to lead to more damaging political clashes. However, a combination of the remaining powers of the old order and the limited reforms the regime implements would prevent the entire system from disintegrating.

In view of the volatile situation that prevails in the USSR today, however, we believe that three other scenarios—each roughly a 1-in-5 probability—are also possible over the next year.

- An accelerating deterioration is unlikely to continue indefinitely and could during the next year become a free fall that would result in a period of *anarchy*—the breakdown of central political and economic order.

- The chances for *military intervention* in politics would increase markedly in a scenario where the country was on the verge of, or in, a state of anarchy. Military intervention could take several forms: a military coup against the constitutional order, rogue activity by individual commanders, or martial law ordered by Gorbachev to enforce government directives. Of these, Intelligence Community analysts believe a coup to be the least likely variant and a civilian-directed martial law the most likely.

- A *"light at the end of the tunnel"* scenario, where progress over the next year toward the creation of a new system outpaces the breakdown of the old, cannot be ruled out. There would be further progress toward marketization and pluralization in spite of continued economic decline and political turmoil.

Whichever scenario prevails, the USSR during the next year will remain inward looking, with a declining ability to maintain its role as a superpower. The domestic crisis will continue to preoccupy any Soviet leaders and prompt them, at a minimum, to seek to avoid direct confrontation with the West. But the particular foreign policies they pursue could vary significantly depending upon the scenario. Under the "deterioration short of anarchy" or "light at the end of the tunnel" scenarios, Moscow's Western orientation probably would be reflected in continued, possibly greater, Soviet willingness to compromise on a range of international issues.

Special requests to the West for consultations, technical assistance, emergency aid, and trade from the central and republic governments are certain to increase. Unless political conflict over who owns resources and

controls foreign trade is resolved, which is unlikely, both US governmental and private business relations with the USSR and its republics will be increasingly complicated.

An "anarchy" scenario would create precarious conditions for relations with the West and would present the United States with some difficult choices. If the situation evolved into civil wars, we would face competing claims for recognition and assistance. The prospects for the fighting to spill over into neighboring countries would increase. The West would be inundated with refugees, and there would be enormous uncertainties over who was in control of the Soviet military's nuclear weapons.

In a "military intervention" scenario, a military-dominated regime would take a less concessionary approach than Gorbachev's on foreign policy issues and pursue a tougher line on arms control issues and economic relations with Eastern Europe. A military regime, however, would be unable to restore Soviet influence in Eastern Europe and would be too busy attempting to hold the USSR together to resume a hostile military posture toward the West.

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Discussion

Since the Intelligence Community's last Estimate of the Soviet domestic situation a year ago,[1] the USSR's internal crisis has deepened considerably:

- The Communist Party is dying but is still obstructive. Gorbachev has tried to shift the locus of power to the new presidency and legislatures, but they have yet to demonstrate their effectiveness.
- New political groups and parties have won power in key republics and cities and are posing a growing challenge to the Communist system.
- The national government is scrambling to control centrifugal trends, but its writ over the republics is fast eroding, and there is growing ethnic turmoil.
- Economic problems have become more intractable. The uncontrolled growth in demand and distribution problems have created increasing consumer discontent. Gorbachev has lost valuable time in stabilizing the economy and beginning the transition to a market economy.

Our previous Estimate, while foreseeing the tumult, overstated the regime's ability to contain the republics' drive for sovereignty and underestimated the challenge to Communist Party rule from new political forces.

In such a volatile atmosphere, events could go in any number of directions. Because of this, the Intelligence Community's uncertainties about the future of the Soviet system are greater today than at any time in the 40 years we have been producing Estimates on the USSR. Accordingly, our projections for the next year will be highly tentative.

[1] NIE 11-18-89 November 1989, *The Soviet System in Crisis: Prospects for the Next Two Years.*

Toward a New Political Order

The Communist Party's monopoly of power is history. The party is widely seen as the source of the country's problems, and popular hatred of it is increasingly evident. It lost its constitutional guarantee of political primacy in March, and its 28th Congress in July excluded government leaders (except for Gorbachev) from key party posts. The country's two largest cities and largest republic, as well as the three Baltic republics, Georgia, and Armenia, are now headed or have legislatures dominated by former or non-Communists.

A new pluralistic, decentralized political system is emerging but is not yet capable of running the country. The center and the Communist Party still exercise a considerable, though declining, share of political power. *But the CPSU is too discredited to attract sufficient popular support needed to govern in the current environment.* At the same time, the emerging political groups, while showing strength, are still small and inexperienced in the ways of power and are not competitive on the all-union level (see inset, page 3).

The governmental institutions to which Gorbachev has been attempting to shift power are likewise only in their formative stages. The Congress of People's Deputies (CPD) is foundering. The Supreme Soviet—elected by the CPD—has shown more promise, but is also losing influence because of its lack of popular legitimacy, its inability to act decisively, and the center's difficulty in maintaining control over major sectors of government. Gorbachev has made the presidency the highest organ of executive power, supplanting the CPSU Politburo and the Council of Ministers, but its real authority remains to be proved. This diffusion and confusion of power, coupled with the republics' assertion of sovereignty, is creating a power

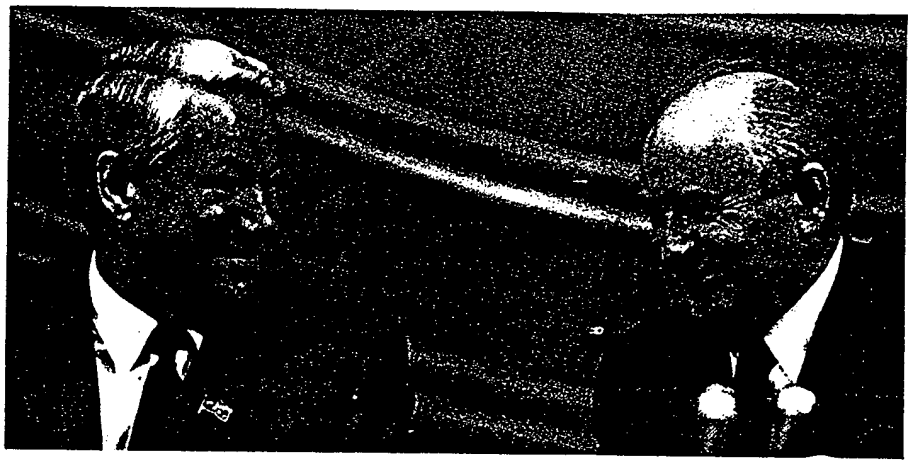


Figure 2. Yel'tsin and Gorbachev: Beyond the smiles, can they cooperate?

vacuum. Gorbachev has amassed impressive power on paper, but his ability to use it effectively is increasingly in question and his popular support [ ] is dwindling [ ]

Political Strategy of the Key Players

Gorbachev's defeat of the party's conservative wing at the congress has given him greater room to maneuver. The pressure created by Yel'tsin's growing influence has made Gorbachev realize that he must work with Yel'tsin and other non-Communist forces. He now accepts the inevitability of a weaker central government and a market-oriented economy. Yet Gorbachev, afraid of social upheaval, wants to preserve a significant measure of control over events. This has led him to try to bolster his powers as President, limit the influence of new non-Communist political forces, retain significant powers for the center in a new union, and water down the Shatalin Plan for transformation to a market economy. This course is at odds with Yel'tsin's on some key issues and is slower and not as far reaching as we believe is necessary.

The political forces outside the Communist Party are certain to get stronger; there is as yet, however, no coherent strategy among those forces as a whole. Many non-Communist figures are concentrating their efforts on organizing political parties. Others who have already won elections, such as Yel'tsin and Moscow Mayor Gavriil Popov, have shunned involvement—for the time being at least—in any political party and concentrated on the basics of governing (see annexes). If they demonstrate over the next year that they can get things done and make the voices of their constituents heard, the prospects for a more rapid emergence of a non-Communist leadership on the all-union level would increase markedly.

Yel'tsin's immediate goal is achieving sovereignty and greater power for the Russian Republic (see p. 7); but the enormous size of that republic and his reputation throughout the USSR as unofficial leader of the non-Communist forces make him a formidable competitor to Gorbachev. Yel'tsin, who quit the CPSU in July, supports a multiparty democracy, rapid movement toward a market economy, and a much looser union in which the republics grant only limited powers to the center.

Currently, Yel'tsin appears to have the political advantage over Gorbachev; he is far more popular than Gorbachev in USSR-wide opinion polls. In the six months since Yel'tsin became Russia's President, the two have had periods of cooperation and confrontation. Their willingness and ability to cooperate will play a critical role in the fate of political, economic, and center-republic transformation in the USSR over the next year. Whether they will do so is open to question, given their mutual personal antagonism,

Embryonic National Political Parties

A wide array of political groups is emerging in the USSR as the country moves toward the development of a multiparty, state-of-law political system. They have the potential to gain significant electoral support but—except for those in the Baltics and the Caucasus—have yet to develop into full-blown political parties. The groups generally lack clear, comprehensive political platforms, and none has a formal membership of more than several thousand. Several groups claim to be parties or will claim that title soon. Although based in the Russian Republic, they have some following in other parts of the country.

Democratic Platform. *This group of democratic reformers from the CPSU is in the process of transforming itself into an independent party. Its leaders predict that 30 percent of the current CPSU membership will eventually join the new party, but the actual figure is likely to be lower. The party's platform supports the market as the prime regulator of the economy, private property, and "independence" for the republics.*

Democratic Russia. *This group is currently serving as a legislative coalition and has run proreform candidates for local and Russian Republic elections. It embraces an assortment of political forces opposed to CPSU traditionalists. The group currently has strong majorities in the Moscow and Leningrad city councils and a thin majority in Russian Supreme Soviet.*

Social Democratic Party. *Founded in January 1990, this party is trying to associate itself with European Social Democrats. It has generally supported Gorbachev but has charged him with being too cautious and seeking to perpetuate an authoritarian system.*

Christian Democratic Union of Russia. *This party openly opposes Gorbachev. It insists that "Russia should become independent of the USSR" by establishing new forms of federation with other democratically inclined republics. The party's economic platform rejects capitalism while supporting a "free market controlled by society" and a progressive tax scale to protect the poor.*

Democratic Union. *Radical by Soviet standards, this party believes the Soviet political system should be thoroughly overhauled to establish a voluntary federation of republics based on a Western-style multiparty system and a full market economy. Party leaders have stressed the need to confront government authorities in order to bring attention to the repressive character of the Communist system.*

Green Party. *This party is taking shape among approximately 300 ecological organizations. These organizations agree on the need to protect the environment but have not been able to develop a consensus on other political or economic issues.*

different policy agendas, and political rivalry. Open confrontation would stymie system transformation and lead to greater instability. Cooperation would not guarantee peaceful transformation, but it would help significantly by garnering popular support for painful economic measures linked to marketization and by making it more difficult for the entrenched party machinery in the countryside to be obstructive. If Yel'tsin follows through during the next year on his pledge to stand for popular election to the Russian Republic presidency, a decisive victory would further enhance his political influence.

Gorbachev, the Supreme Soviet, and the Congress of People's Deputies, elected before the establishment of independent political parties, lack the popular support

necessary to push through the difficult and painful measures needed to deal with the country's crises. Accordingly, Gorbachev could decide during the next year to create a "roundtable" between the government and non-Communist leaders à la Poland in 1989 or perhaps even form a grand coalition. This would involve the removal of the increasingly ineffective Nikolay Ryzhkov from the premiership. Elections for the Congress of People's Deputies are not due until 1994 and for the presidency until 1995, but Gorbachev may calculate that holding early legislative elections would allow new parties to gain representation. Submitting himself to the popular will would be risky, and he is unlikely to do so during the coming year.

Impact of Other Players

The Armed Forces and Security Services. Leaders of the military and security services perceive dangerous consequences from Gorbachev's domestic and foreign policies. These concerns reflect alarm over the collapsing authority of the party and the central government, growing domestic disorder, the unchecked spread of separatist movements, and the breakup of the East European security system.

These organizations will find their ability to cope with growing internal disorder limited over the next year. The military is averse to using its troops to police the population. Moreover, most Soviet troop units, because they are conscript based, are ill suited to controlling disorder—especially in Slavic areas. The KGB's ability to perform its internal security mission

will also decline as more light is shed on its activities, independent political movements grow, and more local governments come under control of non-Communist forces. The Ministry of Interior, despite a growth in manpower, is stretched thin and cannot control widespread domestic unrest.

Figure 4. Demonstrations on May Day 1990 in Red Square. Banner reads: "Power to the people and not to the party!"

Despite their apprehension over the current domestic situation and concern about their abilities to perform assigned missions, the military and security services do not pose a serious challenge to Gorbachev's leadership. They view themselves as instruments of the state and are attempting to help Gorbachev in dealing with the turmoil. Even with their many internal problems, they represent the most reliable institutional assets remaining at Gorbachev's disposal.

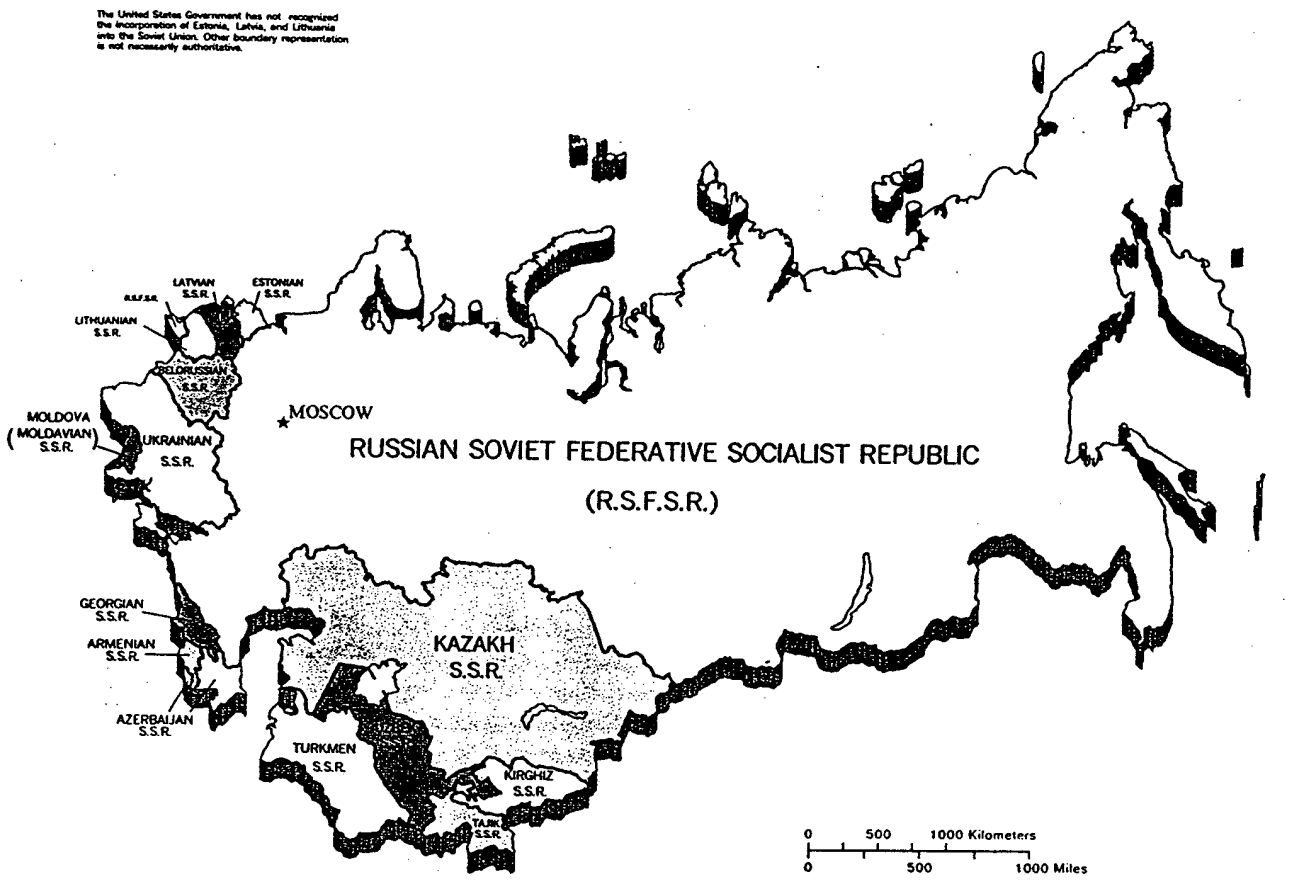
Society. Popular anger is growing, as is belief in the inability of the central government to lead the country out of the morass it is in. Deep pessimism about the future prevails, especially when it comes to bread and butter issues. People are searching for something to fill the emptiness in Soviet society through such alternatives as religion and nationalism. In particular, Russian nationalism—more likely in an inward-looking, rather than chauvinistic, variant—will play a growing role in the future of the country.

The reforms under way have given the peoples of the USSR greater say in their political and economic lives, and they have expressed their views through the ballot, demonstrations, strikes, and violence. The population's influence is likely to grow even more during the next year as power continues to move away from central institutions. How this influence is exercised and channeled will be critical variables. Separatist groups and new political parties—primarily on the left, but also from the right—will tap much of this popular activism. This will increase their importance but could also embolden them to take steps that lead to greater instability. Outbursts of civil disobedience are almost certain to grow; they are more likely to occur—and be most severe—in non-Russian areas but probably will also take place in the largest cities of the Russian Republic and in energy-producing regions.

The Crumbling Union

The Soviet Union as we have known it is finished. The USSR is, at a minimum, headed toward a smaller and looser union. The republics, led by Yel'tsin and the RSFSR, will intensify efforts to reshape the union independent of the center, further loosening Moscow's

Figure 5
Soviet Republics



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grip over their regions. To date, these efforts are mostly declaratory; actual control over institutions and resources in the republics is still to be tested.

In an effort to cope with the nationalist forces straining the fabric of the union, Gorbachev now supports a substantially widened scope for market forces and the conclusion of a new union treaty by early 1991 that would establish new power-sharing relationships between Moscow and each republic. We doubt, however, that a new union treaty can be concluded within the next year. Gorbachev has indicated he will accept a reduction in the center's authority but so far is attempting to hold on to more authority than most republics want to concede. *The initiative now resides mainly with the republics, and any new treaty is likely to be driven more by what powers they are willing to grant the center than by what Gorbachev wants* (see figure 6).

Because of the disproportionate size and influence of *Russia*, a new union treaty will not be concluded unless Yel'tsin and Gorbachev work together. How far many of the other republics go in demanding sovereignty will be directly affected by Russia's success in negotiating with the center and with the other republics.

Figure 6
USSR: Soviet Republic Sovereignty Declarations

● Yes
■ No
▲ Unknown

Republic (in order of declaration)

	Estonian SSR	Lithuanian SSR	Latvian SSR	Azerbaijan SSR	Georgian SSR	RSFSR	Uzbek SSR	Moldova	Ukrainian SSR	Belorussian SSR	Turkmen SSR	Armenian SSR	Tajik SSR	Kazakh SSR	Kirghiz SSR
Seeks immediate secession	●	●	●	■	■	■	■	■	■	■	■	■	■	■	■
Supremacy of republic laws	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Right to republic military troops	●	●	●	■	■	■	■	■	●	●	■	●	■	●	▲
Independent economic policy	●	●	●	●	●	●	●	●	●	●	●	●	●	▲	▲
Republic banking, tax, currency	●	●	●	■	■	●	■	■	●	●	[a]	●	[a]	▲	▲
Independent foreign relations	●	●	●	●	●	●	●	●	●	●	●	●	●	●	▲
Control over natural resources	●	●	●	●	●	●	●	●	●	●	●	●	●	●	▲
Republic citizenship	●	●	●	●	●	●	●	●	●	●	●	●	●	●	▲
Military neutrality	■	■	■	■	■	■	■	[b]	●	●	■	■	■	▲	▲
Nuclear-free state	■	■	■	■	■	■	■	■	●	●	●	■	■	[c]	▲
Participant in union treaty talks	■	■	■	●	●	●	●	●	●	●	●	●	●	●	●

[a] Turkmen SSR and Tajik SSR have asserted the right to independent republic banking.

[b] Moldova has declared itself to be a demilitarized zone.

[c] Kazakh SSR, site of principal nuclear test range, has banned all nuclear testing and construction or operation of test sites for weapons of mass destruction.

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The Range of Republic Demands

The two largest and most powerful republics, Russia and the Ukraine, now support a severely limited central government and union as they demand substantial control over their own affairs. The Russian Republic legislature is calling for primacy of its own laws over Soviet ones, control of the republic's land and natural resources, fiscal policy, police and internal security forces, most economic enterprises, foreign trade, and some role in foreign and monetary policy. The Ukraine has gone further, asserting the right to establish its own army, and Belorussia and the Central Asian republics are also making far-reaching demands. The three Baltic republics are flatly rejecting political affiliation with the center before achieving independence. Georgia, Armenia, and Moldova, in which secessionist sentiment is especially strong, appear unwilling to sign a union treaty but are seeking a gradual transition to independence.

The Union Treaty: Areas Over Which the Center Seeks Control

Gorbachev apparently wants to maintain the primacy of union laws over republic ones and to preserve substantial central control of:

- *Natural resources and land.*
- *Defense and state security.*
- *Foreign policy.*
- *Macroeconomic policy.*
- *Foreign trade and customs.*
- *Border control.*
- *Science and technology policy.*
- *Power supply.*
- *Transportation.*
- *Protection of individual rights.*

What Kind of Union?

The process of reshaping the union will vary according to the republic over the next year; at a minimum, the center will suffer a dramatic reduction in authority.

There is a better than even chance that Moscow and certain republics—*Russia, Belorussia, Azerbaijan, and the Central Asian republics*—will move toward a loosely affiliated union of republics. We believe that Gorbachev will ultimately go a long way to meet Russia's autonomy demands as long as the central government retains a meaningful role in the new union. Considerable difficulties and hard bargaining remain; but so far the demands of Russia and these other republics do not appear irreconciliable with Gorbachev's (see insets).

The *Ukraine*'s future status is more uncertain. Growing radicalization of the nationalist organization *Rukh* and the population generally has pushed the Ukrainian legislature to take increasingly assertive steps in defining the republic's relationship with Moscow. *Rukh* supports a complete break with the central government, but more traditionalist forces in the Russified eastern part of the republic are likely to try to impede any abrupt declaration of independence.

Thus, there is still a significant chance that Moscow will be unable to reach a mutually acceptable division of responsibilities even with the core Slavic republics. Moscow could reject their current demands, or the RSFSR or Ukraine could escalate demands in areas such as defense and monetary policy to the point where Gorbachev would feel he had no choice but to resist. A number of factors could contribute to a breakdown in negotiations, including a continued rise in Ukrainian nationalism, worsening of relations between Gorbachev and Yel'tsin, or rising popular unrest directed against central authority. In these circumstances, struggle for control of key institutions and enterprises in the republics would ensue, leading to sharp—probably violent—confrontation, with the very existence of the union at stake. The advantage in this scenario would belong to the "locals."

The Central Asian republics appear ready to try out a reformed union as a way of addressing their economic

difficulties. Market reform will create disproportionate economic pain in the region, however, and could eventually produce disillusion with even a looser union.

Although no republic is likely to become officially independent within the next year, *the Baltic republics* are almost certain to hold out for full independence and will be on their way to getting it. Latvia and Estonia will probably be willing to consider some kind of voluntary economic association with the Soviet Union now, but Lithuania is likely to be willing to do so only after achieving complete independence. *Georgia, Armenia, and Moldova* will probably reject any union treaty but will adopt a more gradual approach to independence than the Balts. As Georgia and Moldova press for independence, ethnic minorities there are likely to intensify calls for autonomy. This probably would not deter republic efforts. But Moscow may yet be able to play on Georgian and Armenian concerns about susceptibility to potential Turkish or other Muslim aggression without the protection of the Soviet security umbrella. And a shift in Romania toward greater authoritarianism would probably make the Moldovans more willing to stay in the union.

The Economic Variable

Last year the Soviet economy slumped badly, and official statistics for the first nine months of 1990 paint a picture of an economy in accelerating decline. Output is down compared with a year ago, inflation is up, and shortages are widespread and increasing. Even though imports and production of some consumer goods are up (such as in agriculture and consumer durables), transportation bottlenecks and systemic inefficiency are denying consumers much of the benefit. Meanwhile, continued rapid growth in personal money incomes and a huge backlog of excess purchasing power have combined to undermine the ruble and cause a vicious circle of shortages and binge buying, enflaming consumer anger and leading to violence.

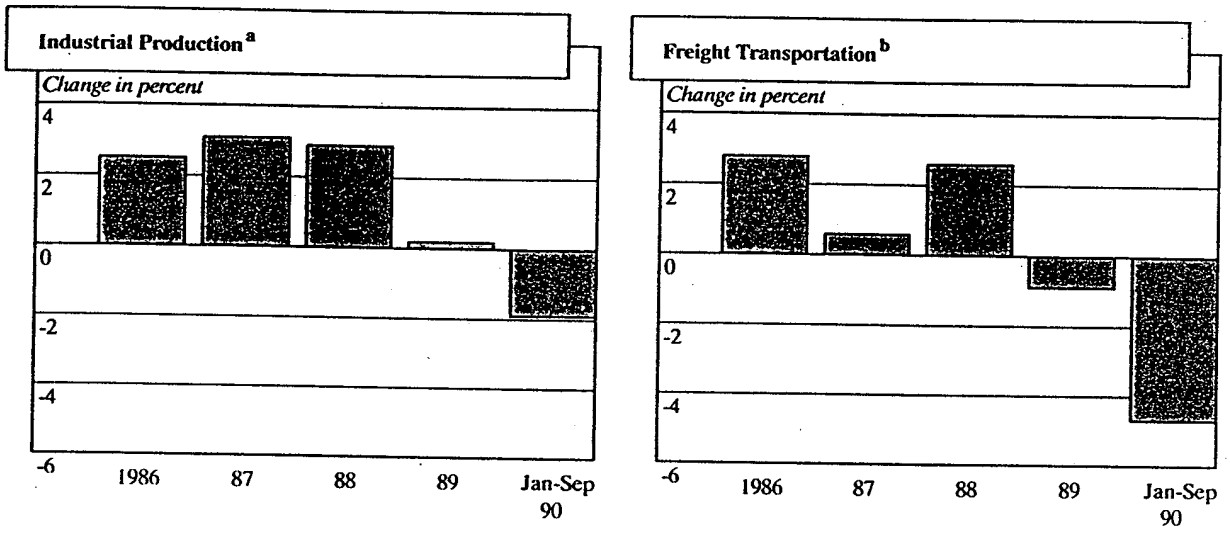
In the year to come, the economy's performance will depend on how central authorities manage erosion of their control over the economy, the level of labor and ethnic strife, the success of regime efforts to overcome the acute financial imbalance, and the course of marketization. In view of our assessment of the prospects for each of these variables, we believe that the economy will continue declining at an accelerating rate and there is a possibility of an economic breakdown (see inset, page 13).

Erosion of Central Control

The transition from the command economy to a more decentralized market system will ultimately yield major gains in performance. In the short run, however, central controls have begun to wither before an effective new system has been put in place. The Communist Party is no longer able to enforce the state's economic orders; economic reforms have given state enterprises and farms the legal basis to resist the center; and the pursuit of independence and autonomy at the republic and enterprise levels have disrupted old supply and demand relationships.

Over the next year, these trends are almost certain to continue, and the center could be weakened to a point where it would lose control of the allocation of vital goods such as energy, key industrial materials, and grain. Attempts by regional authorities to protect their populations from rampant shortages will worsen the current economic turmoil. At the same time, the interdependence of the republics and localities and the

Figure 7
Soviet Economic Performance Down



[a] CIA estimates.

[b] CIA estimates except 1990, which is a Soviet official statistic.

NOTE: January-September 1990 is compared with January-September 1989.

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interest of the regional authorities in avoiding economic chaos will continue to argue for restraint against severing old relationships.

Labor and Ethnic Strife

Labor and ethnic problems over the past year have been major contributors to the USSR's economic turmoil. Poor living and working conditions, increasing shortages, and greater awareness of the workers of their lot have led to falling worker motivation and fueled labor and ethnic unrest. Because these problems are certain to get worse in the year to come, labor strife will continue, and faith in government solutions to labor problems will remain low.

The economy is most vulnerable to work stoppages in the transportation and energy sectors. The railroad system has virtually no slack capacity or substitutes. Strikes in this sector would immediately damage the already fragile supply network, grinding other sectors to a halt and probably leading to the use of the military to run the railroads. Similarly, an upsurge in unrest in a large republic such as the Ukraine or in the Great Russian heartland would be especially damaging to the economy.

Economic Breakdown

A severe breakdown in the coordination between supply and demand is rare historically and has been a result of revolution, war, or disastrous economic policies. Under present circumstances, such a breakdown could be precipitated by massive popular unrest, regional autarky that destroys trade flows, a radical economic reform, or prolonged strikes of transport workers or workers in basic industries such as steel and energy.

Indicators of such a breakdown would be:
- *A decline in GNP of at least 20 percent.*
- *Hyperinflation, massive bankruptcies and unemployment.*
- *Paralysis of the distribution system for both industrial and consumer goods.*
- *Dramatic flight from the ruble that results in barter trade or payment in hard currency.*

Financial Imbalance

Moscow has struggled unsuccessfully in the past two years to slow or reverse the growth of the excess purchasing power that has destabilized consumer markets. The key to reducing the dangerous backlog of excess purchasing power in the year ahead is to lower the budget deficit and proceed with price reform. Despite the stated intention of the Gorbachev reform program, however, it is doubtful that Moscow will move quickly in either area. Making a dent in this problem will require further cuts in state spending for investment and defense and reductions in social expenditures, particularly the huge subsidies for food. Moscow still fears popular reaction to price increases, however, and a large safety net is an integral part of the Gorbachev program. If the government continues to defer decisive action on these issues, the threat of a real financial crisis will deepen considerably and further complicate reform efforts.

Market Reform

The Gorbachev program approved by the Supreme Soviet in October endorses marketization but fails to cut the bureaucracy immediately, thus making it easy for recalcitrants to block progress (see inset). The plan also sets no specific goals or timetables for denationalization of state assets. Although Gorbachev's advisers indicate that this lack of detail is designed to leave the republics free to work out the specifics of denationalization, the program's reliance on state orders and administered prices for at least another year will sharply limit the number of enterprises that could be denationalized. In addition, the plan's measures to stabilize the economy are misconceived—immediate large increases in wholesale prices and continuation of subsidies to consumers through 1992 will spur inflation and undercut deficit reduction.

Overall, Gorbachev's program is a heavily political document aimed at garnering republic support while retaining substantial power for the center. It adopts a slower, more cautious approach on moving toward a market than the Shatalin Plan—supported by the Russian and other republics—and thereby probably runs less risk in the short term. The limitations of the Gorbachev program are such, however, that it is unlikely to deliver the promised economic gains and, as a result, over the longer term it will court greater political problems than the Shatalin Plan would have. As the program's deficiencies become apparent in the months ahead, the leadership is likely to consider more radical measures to achieve a transition to a market under even more dire economic conditions. With this program or any other that may be adopted, *it is impossible to overstate how difficult, painful, and contentious it will be for a large multinational state to move from a command to a market economy.*

Key Elements of Gorbachev's Market Reform Program

Timing	*18- to 24-month conversion to market period in four stages but without a definite schedule for each stage.*	*Privatization*	*Republics control most assets in their territories and set pace. Republics decide issue of private ownership of land.*
Center-republic powers	*Both center and republics have budget and tax authority; center taxation requires republic concurrence. Center retains control over key exports for some period, shares hard currency revenues with republics.*	*Price reform*	*Increase wholesale prices according to government schedule; enterprise contracts to use these prices. State orders and central distribution, not prices, to determine most allocation.*
Stabilization	*Reduce deficit to 25-30 billion rubles—cut defense, investment, enterprise subsidies. Maintain key consumer subsidies. Finance deficit with bonds. Absorb ruble overhang with bond, consumer warrant sales; sales of some other state assets; and through increases in saving interest rates.*	*Foreign economic relations*	*Moves gradually toward ruble convertibility. Calls for increased latitude on foreign investment, including 100-percent foreign ownership of firms.*

~~Confidential~~

Four Scenarios

I wouldn't hazard a guess.

> Izvestiya *commentator's answer to US Embassy officer's question in July about how he envisioned the USSR in two to three years.*

The interaction of political, ethnic, and economic variables will determine the fate of the country over the next year: major deterioration in any one area would severely strain the current system; breakdowns in all three would mean anarchy. Economic breakdown, in particular, would make crafting a new center-republic relationship next to impossible and markedly increase the likelihood of serious societal unrest.

A further diffusion of power from the center in all three areas—political, economic, and center-republic—is certain. Gorbachev's authority will continue to

decline, although he will probably remain in office a year from now. Even under the most optimistic scenario, the Soviet domestic crisis will be far from resolved in one year's time. The turmoil will continue regardless of the policies pursued. Progress could be made in some areas. But the risk of sudden major discontinuities will remain, and it will take years—at least a decade or more—to find lasting solutions to the country's ills.

Given the unpredictable nature of events in the volatile situation that prevails in the USSR today, we believe that four scenarios capture the range of possibilities during the next year: *deterioration short of anarchy; anarchy; military intervention; and "light at the end of the tunnel"* (see figure 1). These scenarios are analytical constructs describing overall directions the country could take over the next year and are not mutually exclusive. Some would be most likely to develop from one of the others. We believe that the "deterioration short of anarchy" scenario, which develops out of current trends, is more likely than any of the other three. There is, however, a significant potential for dramatic departures along the lines of the "anarchy" or "military intervention" scenarios. Conditions are such that the odds *strongly favor* some form of these three "bad news" scenarios during the coming year.

Deterioration Short of Anarchy

Current trends in the country and the enormous problems facing it in every sphere make this the most likely scenario over the next year, in our view. Intelligence Community analysts give this scenario a close to even probability. The economic, political, ethnic, and societal problems would continue to get worse at an accelerating rate. This scenario would be characterized by:

- Failure to agree upon and implement effectively a far-reaching marketization program; or the broad resistance of the population to such a course.
- Failure of the center and the republics to move to new mutually acceptable political and economic relations.
- Inability of political institutions to adapt to changing political realities and ineffectiveness of new democratically elected leaders in governing.

However, a combination of the remaining powers of the old order—the party and government machinery and the security services—and the limited reforms the regime implements would prevent the entire system from collapsing.

Some positive trends could also occur under this scenario but would not be likely to develop sufficiently to stem the country's rapidly declining fortunes during the next year. Gorbachev's ambivalence toward radical transformation of the system would end up delaying decisive action and diluting the effectiveness of steps his government takes. The non-Communist forces both in and out of government would not be able to form coalitions on a nationwide scale to give clear-cut direction. The complexities and social pain associated with putting a market reform plan in place would not even begin to restore confidence in the currency, reverse autarkic trends, or revitalize commerce, not to mention improve economic performance. The growing autonomy and self-confidence of non-Russians throughout the country would lead to escalating demands and make the achievement of a voluntary union much more complicated.

This diffusion of power would lead during the next year to an increasing power vacuum. With the accelerating deterioration of central control and organizational weaknesses of the opposition, more power would be likely to move into the streets. Strikes and consumer unrest would almost certainly grow, the more so the more rapidly the economy declines. Ethnic unrest and violence would also increase. The security services and the military would be able to manage as long as protests remain scattered and uncoordinated.

The key determinant of how long this scenario would persist is how long the economy can keep from collapsing under these conditions. *The longer this scenario prevailed, the greater the prospects would be for anarchy or military intervention.*

Anarchy

An accelerating deterioration is unlikely to continue indefinitely and could, during the next year, become a free fall that would result in a period of anarchy. Community analysts generally believe that the likelihood of this scenario is roughly 1 in 5 or less. Anarchy would be characterized by a breakdown of the economic system, collapse of central political authority, and widespread social upheaval.

Such an outcome could result from the interaction of a number of developments. In fact, any one development could trigger a cascade that eventually leads to a collapse of the system:

- A sharp acceleration of negative economic trends already in evidence—local autarky, severe food shortages this winter, numerous plant closings due to lack of fuel and supplies.
- Massive social protests or labor strikes that proved to be beyond the security and armed services' ability to control or resulted in large-scale civilian casualties.
- The assassination of a key leader, such as Gorbachev or Yel'tsin.
- The complete breakdown of relations between the center and the republics—particularly the Russian Republic.
- The outbreak of sustained, widespread interethnic violence—especially if directed against Russians.

There are several likely consequences of such a scenario:

- Gorbachev would not politically survive such an upheaval.
- The potential for severe food shortages and malnutrition would be high.
- The union would disintegrate. Most republics would break away from the center, potentially setting off civil wars and massive migrations.
- There probably would be various political outcomes (authoritarian, military dominated, democratic) in different regions of what is now the USSR.

The Departure of Gorbachev or Yel'tsin

The impact of their sudden departure from the scene would vary according to whether it occurred via assassination, death by natural causes, or political pressure—with assassination undoubtedly being the most destabilizing. But leaving aside the circumstances, what would their absence mean?

Gorbachev's departure two years—or even one year—ago, while the traditionalists still retained considerable strength in the leadership and the democratic reforms had barely begun to get off the ground, probably would have set back those reforms many years. His demise in the next year would be certain to throw the country into flux. The CPSU has no obvious successor who could wield the influence Gorbachev has, and the presidency would not be as influential a post without such a strong leader. At the same time, traditionalists could see an opportunity to make a comeback. The democratic and market reforms have now taken on a life of their own, however, beyond the control of even as formidable a figure as Gorbachev. The transformation of the Soviet system would take place in a more uncertain atmosphere in the immediate aftermath of Gorbachev's departure, but he is no longer "the indispensable man."

Yel'tsin has become the unofficial head of the democratic reform movement, and no one else in the movement currently has the stature to challenge Gorbachev. His departure would be a major setback to the movement over the next year but probably not a fatal one over the longer term. There are a number of other emerging democratic leaders who lack Yel'tsin's popular appeal but have other strengths that over time might enable them to play a national role.

Military Intervention

Community analysts believe that the prospects for military intervention in politics are roughly the same as those for "anarchy"—1 in 5 or less. Besides Gorbachev's apparent extreme reluctance to use military force to deal with the country's problems, most Soviet leaders probably believe there is a strong danger that military intervention could accelerate the trend toward chaos and lead to the outbreak of virtual civil war. Problems in society, moreover, have had a debilitating effect upon the military, making it increasingly less suitable and reliable for use in putting down social unrest or enforcing unpopular government directives.

Even so, under conditions of continuing deterioration, the likelihood of the military's becoming more involved in internal politics will grow as the leadership becomes more dependent on the Armed Forces and security services to maintain control. The traditional Russian desire for order could even foster a perception of the military among elements of the population as the key to national salvation in a time of growing chaos. Many senior military leaders share this view of the Armed Forces as the conservator of the Soviet state. *The chances for military intervention would increase markedly in a scenario where the country was on the verge of, or in, a state of anarchy.*

Military intervention could take several forms: a military coup against the constitutional order, rogue activity by individual commanders, or martial law ordered by Gorbachev. Of these, Community analysts believe a coup—either the military acting alone or in conjunction with the security services and CPSU traditionalists—to be the least likely variant. Such an attempt would have to overcome numerous obstacles, including the difficulty of secretly coordinating the activities of the *many* units required for a successful putsch, the increasing political polarization of the Armed Forces, the military leadership's professional inhibitions against such a drastic step, and the fear of large-scale resistance by Soviet society.

Only slightly more probable, in our view, would be independent action by local military units in the face of widespread violence that threatens or causes the collapse of civil government. In such an event, a military district commander—operating independently of Moscow and possibly at the request of besieged regional authorities—could order his forces to restore control locally. Whether troops would obey under these conditions would depend greatly on local circumstances. Lacking clear direction and coordination, such independent military actions probably would not succeed for very long, except perhaps in a situation of countrywide anarchy.

We believe that the most likely variant of military intervention would be one in which the central government in Moscow, believing it was losing all control of events and wanting to stabilize the situation, called on the military to impose martial law in selected areas and enforce government directives in the name of salvaging reform. Such an effort probably would be limited to Russia and a few other key republics. The High Command would try to execute such orders, seeing this as its duty to the state. If the conditions are severe enough, such military intervention might be welcomed by the local population and could stabilize the situation temporarily. Unless accompanied by a program offering solutions to the country's political, ethnic, and economic crises, however, the benefits from such a step would be transitory and probably counterproductive in the long run.

"Light at the End of the Tunnel"

The prospects that progress toward the creation of a new system over the next year could outpace the breakdown of the old are also about 1 in 5 or less, in our view. This scenario would develop out of current pressure toward a pluralistic political system, self-determination, and marketization. Such trends, while not ending the societal turmoil, might gather sufficient steam to improve prospects for long-term social stability. Economic hardship would increase as movement toward a market economy began and enormous difficulties in creating a new politcal order would lay ahead, but a psychological corner would be turned to give the population some hope for a brighter future.

In order for this scenario to play out, there would have to be substantial progress toward:

- Developing a new set of relationships that would allow the republics to deal constructively with each other, the center, and the outside world.
- The filling of the political power vacuum by new political institutions and parties. Key political leaders would need to work together constructively.
- Establishing new economic relations based on the market.
- Changing the mood of the Soviet population from one of fear of impending disaster to one of hope. Without such a change in the psychology of the population, a successful transition to the market and democracy would be almost impossible.

The economy would also have to avoid a decline so precipitous as to cause unmanageable social unrest. Progress toward market reform and republic autonomy will be difficult enough to achieve with the certain dropoff in economic performance. A dramatically shrinking economic pie would make unilateral steps by the republics to assert their economic independence more likely. It would also increase the prospects for widespread consumer and labor unrest. If not effectively managed, such developments could break any government.

Implications for the United States

Whichever scenario prevails, the USSR during the next year will remain an inward-looking, weakened giant with a declining ability to maintain its role as a superpower. The domestic crisis will continue to preoccupy any Soviet leaders and prompt them to seek, at a minimum, to avoid confrontation with the West. But the particular foreign policies they pursue could vary significantly depending on the scenario.

Under the "deterioration short of collapse" or "light at the end of the tunnel" scenarios, Moscow's Western orientation probably would be reflected in continued, possibly greater, Soviet willingness to compromise on a range of international issues. The Soviets would be *very likely* to continue:

- Deepening the growing economic and political relationships with the United States, Western Europe, and, to a lesser extent, Japan.
- Negotiating ongoing and new arms control agreements.
- Cooperating in crafting a new European security order.
- Reducing military and economic commitments in the Third World and expanding cooperation with the United States there.[2]

In these scenarios, Soviet as well as republic interest in Western economic involvement would continue to expand rapidly. The liberalization of laws on joint ventures, property ownership, and personal entrepreneurship create improved conditions for Western investment. However, uncertainties over prospects for market reform, the role of the central versus the republic governments in such areas as banking and foreign trade, and the ongoing turmoil in Soviet society will make significant investment a risky venture for Western firms and make it unlikely that many will commit much to the effort.

The central and republic leaders also appear not to have thought through what forms of Western aid or investment they would like, the scale of assistance, or the timing. Proposals range from a "modern Marshall Plan," to Soviet inclusion in international financial organizations, to technical assistance for marketization. The USSR faces serious structural and societal obstacles, however, that would dilute the impact of most forms of foreign aid except for technical assistance. Recent experience has shown that the country's transportation and distribution networks are ill equipped to move large quantities of imports efficiently. Wide-scale corruption and black-marketeering further diminish the system's capabilities to get goods to their destinations. If Moscow moves decisively toward

[2] These issues will be addressed more fully in the forthcoming NIE 11-4-91, *Soviet National Security Strategy in the Post-Cold-War Era.*

a market economy, Soviet leaders will press the West and Japan even harder for assistance to cushion the transition.

Internal *political* developments may also push Gorbachev to conclude agreements with the West as quickly as possible. Assertions of autonomy by republics in the areas of economics and defense will increasingly challenge his authority to speak on behalf of the USSR. The diffusion of power is bringing new actors to the scene who will attempt to develop their own relations with Western states, especially in the economic sphere. Special requests for consultations, technical assistance, emergency aid, and trade from republic governments are likely to increase. Unless political conflict over who owns resources and controls foreign trade is resolved, both US governmental and private business relations with the USSR and its republics will be complicated. Those direct Western contacts with the republics disapproved of by Moscow would be perceived as interference and could result in steps by the central government to block Western assistance to republics and localities.

An "anarchy" scenario would create precarious conditions for relations with the West and would present the United States with some difficult choices. Various factions would declare independence or claim legitimacy as a central government and push for Western recognition and assistance—including military aid. Each Western government would be faced with the dilemma of which factions to deal with and support. If the situation evolved into civil wars, the fighting could spill over into neighboring countries. Eastern Europe and Western countries would be inundated with refugees, and there would be enormous uncertainties over who was in control of the Soviet military's nuclear weapons.

Under conditions of anarchy, a coherent Soviet foreign policy would be highly unlikely, and Soviet ability to conclude ongoing arms control negotiations, implement accords already reached, and carry out troop withdrawals from Eastern Europe would be undercut. Troop withdrawals from Germany, for example, could be delayed or stymied by transport disruptions or by wholesale defections of Soviet troops eager to escape the turmoil awaiting them in the USSR.

In a "military intervention" scenario, a military-dominated regime would take a less concessionary approach than Gorbachev's on foreign policy issues and pursue a tougher line on arms control issues because of the military's current misgivings about CFE, START, and the changes in Eastern Europe. Moreover, such a regime probably would diverge significantly from current policy on Jewish emigration and be less inclined to support the presence of US military forces in the Persian Gulf region. Such policy shifts could undermine the entire panoply of Soviet political, economic, and military ties to the West. A military regime, however, would be too busy attempting to hold the USSR together to resume a hostile military posture toward the West, although further shifts in resources away from the defense sector could be halted. Such a regime would be unable to restore Soviet influence in Eastern Europe but would be likely to take a tougher line on economic issues and would make East-West cooperaton in the region more difficult.

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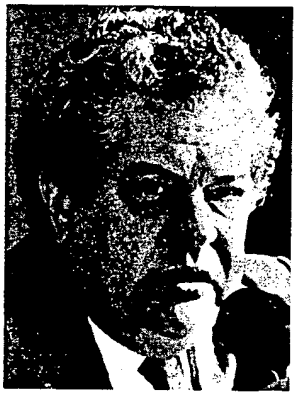
Annex A

Emerging Democratic Leaders



Vyacheslav Shostakovskiy

A member of the Coordinating Council of the Democratic Platform, Shostakovskiy advocates creating a post-Communist parliamentary party that will cooperate with democratic forces both within and outside the CPSU. Shostakovskiy announced at the 28th CPSU Congress in July that the Democratic Platform was withdrawing from the CPSU to form a new party, and shortly thereafter was fired from his post as rector of the Moscow Higher Party School. (C NF)

Anatoliy Sobchak

A legal scholar and radical reformer, Sobchak was elected chairman of the Leningrad city council in May. Sobchak may have first met Gorbachev in the early 1960s, when he practiced law in the President's home region of Stavropol. Sobchak is an outspoken critic of Premier Ryzhkov and his ideas on economic reform. Sobchak, 53, resigned from the Communist Party in July. He is currently cooperating with Yel'tsin, but policy and ego clashes probably will occur in the coming year. (C NF)

Gavriil Popov

Popov, who resigned from the Communist Party in July, has long been one of the USSR's most outspoken economists. Since becoming chairman of Moscow's city council in April, he has energetically worked to implement radical market reforms in the city. Popov, 54, has been called shy but has also been accused of having an authoritarian management style. As mayor, Popov has cooperated with Moscow party boss Yuriy Prokof'yev, a moderate reformer, and is a key adviser to Yel'tsin. (C NF)

Nikolay Travkin

Travkin is a radical reformer who favors immediate privatization of Soviet state enterprises and rapid legalization of private property. A member of both the RSFSR and USSR Supreme Soviets, Travkin advises Yel'tsin. Travkin, who left the CPSU in March, was elected chairman of the Democratic Party of Russia at its founding conference in May (not to be confused with broader "Democratic Russia" movement, of which Travkin is also a member). Travkin is 44. (C NF)

Annex B

Emerging Traditionalist Leaders

Veniamin Yarin

Yarin has emerged as an energetic, popular, and effective right-wing leader within the USSR Supreme Soviet and now also sits on the Presidential Council. Influential among the working class and a self-avowed Russian nationalist, he opposes market-oriented reforms such as cooperatives and has called for price freezes on food and consumer goods. Yarin, 50, is cochairman of the United Russian Workers Front, which opposes perestroyka as harmful to workers' interests. (C NF)

Ivan Polozkov

*Polozkov is a moderate traditionalist who none*theless supports some important aspects of Gorbachev's reform program. Elected first secretary of the Russian Republic Communist Party in June, he is an old acquaintance of Gorbachev from their days as party officials in neighboring regions. Polozkov has been reviled by the reformist intelligentsia and has been the object of an ongoing media diatribe. Polozkov, 55, has professed a desire to cooperate with Yel'tsin but has had virtually no influence over the program being put forward by Yel'tsin and the Russian Supreme Soviet. Conflicts between the two men are likely over the coming year. Although his formal position appears to make him a major player, divisions within the new Russian Communist Party and the fact that the program of the party's traditionalist majority is out of touch with trends in the country, are already limiting his influence and relevance. (C NF)

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